

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 IO-10 NEA-10 L-03 H-02 PA-01

PRS-01 USIA-06 SP-02 AID-05 EB-07 NSC-05 CIEP-01

SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 CU-02

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USADB

E.O. 11652: ADS, DECLAS 12/31/75

TAGS: EAID, EFIN

SUBJECT: ADB PROPOSED PARTICIPATION IN FINANCING OF
INTERNATIONAL SCHOOL DEVELOPMENT PROGRAM

PASS TREASURY FOR GONZALEZ

FOR NAC AGENCIES

REFS: (A) MANILA 9748 (B) TRSY 75-125; (C) MANILA 9868

1. IN VIEW USADB INTERPRETATION IS CAPITAL NOTE
OPTION INCORRECT RE REF C, ARITHMETIC IN PARA 10,
REF A ALTERED. BANK WOULD PAY 75 PERCENT OF CAPITAL
NOTE COUPON SURRENDERED ON ANNUAL BASIS TO IS AT 2,000
PESOS MARKET VALUE. BANK WILL RECOUP FROM EMPLOYEE P500 FOR
EACH NOTE USED FOR ENROLLMENT PURPOSES. HENCE, SINCE P1050
IS ANNUAL COST TO BANK OF EACH NOTE PURCHASED, BANK
NET ANNUAL OUTLAY P550 PER NOTE..

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2. COST TO BANK FROM EXERCISING CAPITAL NOTE OPTION VARIES WITH NUMBER OF 300 NOTES PURCHASED UTILIZED FOR ENROLLMENT PURPOSES. IF BANK USES 230 COUPONS FOR ENROLLMENT PURPOSES IN COMING ACADEMIC YEAR, THEREBY REDEEMING 70 NOTES AT PRO-RATED MATURITY VALUE OF P2,000 PER NOTE, THEN BANK ACTUALLY ENJOYS P13,500 ANNUAL SURPLUS FROM OPTION, I.E., COST TO BANK P550 PER STUDENT PER YEAR AMOUNTS TO P126,500 FOR 230 NOTES USED FOR ENROLLMENT PURPOSES, WHICH AMOUNT MORE THAN OFFSET BY REDEMPTION OF 70 COUPONS AT P2,000 (P140,000 PESOS) LEAVING P13,500 SURPLUS. HOWEVER, ONCE BANK FULLY UTILIZES ALL 300 NOTES FOR ENROLLMENT PURPOSES, THEN COST TO BANK ANNUALLY CALCULATED AT P165,000 (P550 PER 300 STUDENTS). NOTE, HOWEVER, THAT LATTER FIGURE -- P165,000 -- ROUGHLY EQUIVALENT TO \$22,000 WHICH IS \$7,000 IN EXCESS OF ANNUALLY BUDGETED \$15,000 ADB GRANT FOR SUPPORT OF IS. PER REF A, BANK DOES NOT INTEND CONTINUE \$15,000 GRANT ONCE IT PARTICIPATES IN NOTE PURCHASES.

3. POINT MADE PARA 2, REF B CORRECT. CAPITAL NOTE COPTION NOT NORMAL LENDING PROCEDURE BUT RATHER ADVANCED TUITION PAYMENTS TO FINANCE CAPITAL IMPOROVEMENTS. ONCE 12TH COUPON SURRENDERED TO IS BANK RETAINS NO REDEEMABLE INSTRUMENT REPRESENTING PRINCIPAL SINCE PRINCIPAL HAS BEEN PAID BY PROVIDION OF EDUCATIONAL SERVICES AS SUGGESTED PARA 2, REF B.

4. AGREE POINT MADE PARA 3, REF B REGARDING UNORTHODOX REDEMPTION SCHEDULE. HOWEVER, COUPONS WILL INDEED BE REDEEMED BY IS AT END EACH YEAR AT DECLARED MARKET VALUE OF P2,000 PER COUPON.

5. IF PARA 4 REF B REFERS TO PESO DEMAND OBLIGATIONS, BANK INFORMS IT WILL NOT USE THESE HOLDINGS TO PURCHASE NOTES SINCE, TO DO SO, WULD VIOLATE AGREEMENT BETWEEN BANK AND GOP THAT ADB NOT ENCASH MORE THAN P100,000 PER MONTH. BANK THEREFORE, TO UTILIZE CONVERTIBLE CURRENCY HOLDINGS FOR NOTE PURCHASES. SULLIVAN

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